

Message Text

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ACTION AF-10

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-08

FRB-03 INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02

OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-07 CEA-01 AGR-01 HA-05 HEW-04 HUD-01 OES-07

DOT-00 IO-13 INT-05 EA-10 ARA-10 /157 W

-----000183 011600Z /44

R 010750Z JUN 78

FM AMEMBASSY MAPUTO

TO SECSTATE WASHDC 7136

INFO AMEMBASSY DAR ES SALAAM

AMEMBASSY LILONGWE

AMEMBASSY LISBON

AMEMBASSY LUSAKA

AMEMBASSY MBABANE

AMEMBASSY PRETORIA

AMCONSUL JOHANNESBURG

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E.O. 11652: N/A

TAGS: ECON, MZ

SUBJECT: MOZAMBIQUE AT THREE: THE ECONOMY

1. SUMMARY. MOZAMBIQUE'S ECONOMY HAS DETERIORATED STEADILY DURING THE FIRST THREE YEARS OF INDEPENDENCE. FURTHER HARD TIMES ARE AHEAD BECAUSE OF DEPENDENCE ON IMPORTS, SHORTAGE OF TRAINED PERSONNEL AND THE DISORGANIZATION OF THE AGRICULTURAL, COMMERCIAL AND MANUFACTURING SECTORS. NATIONALIZATIONS, STATE CONTROL OF THE IMPORT AND DISTRIBUTION OF BASIC COMMODITIES AND CLOSE GOVERNMENT SUPERVISION OF MAJOR FOREIGN EXCHANGE EARNERS WILL CONTINUE. AGRICULTURE AND BASIC HUMAN NEEDS REMAIN DEVELOPMENT PRIORITIES, WITH ATTENTION TO BOTH THE STATE FARM SECTOR AND NEW COMMUNAL VILLAGES. WORKER GROUPS WILL CONTINUE TO PLAY A ROLE IN INDUSTRIAL MANAGEMENT, BUT ARE BECOMING MORE PRAGMATIC IN RESPONSE TO GOV-
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ERNMENT PRESSURE FOR PRODUCTIVITY. COOPERATION WITH SOUTH AFRICA IS AN ECONOMIC NECESSITY, AND BUSINESS RELATIONS WITH THE WEST ARE NORMALIZING. WHILE COMMITTED TO SOCIALISM, MOZAMBIQUE IS TEMPERING IDEOLOGY WITH PRAGMATISM IN ORDER TO MEET ESSENTIAL NEEDS. END SUMMARY.

2. DURING THE FIRST THREE YEARS OF INDEPENDENCE, THE MOZAMBIQUE

ECONOMY HAS DETERIORATED STEADILY. MAJOR FACTORS IN THE DECLINE HAVE BEEN THE DEPARTURE OF 90 PERCENT OF THE EXPATRIATE POPULATION AND RESULTING SHORTAGE OF TRAINED PERSONNEL, CLOSURE OF THE BORDER WITH RHODESIA, DAMAGING FLOODS OF 1977 AND 1978, AND DISRUPTIONS CAUSED BY CHANGES FROM A FREE ENTERPRISE/COLONIAL ECONOMY TO A SOCIALIST ONE.

3. INTERESTED IN CONSOLIDATING THEIR POLITICAL BASE AND MAKING THE ADJUSTMENT FROM BUSH FIGHTERS TO ADMINISTRATORS, THE LEADERS OF FRELIMO LARGELY NEGLECTED ECONOMIC QUESTIONS UNTIL THE THIRD PARTY CONGRESS OF FEBRUARY, 1977. THE CONGRESS DEVELOPED A LENGTHY LIST OF "ECONOMIC AND SOCIAL DIRECTIVES", WHICH HAVE SERVED AS BOTH A SET OF GOALS AND A GENERALIZED DEVELOPMENT PLAN FOR THE ECONOMY. THE DIRECTIVES, WHICH EMPHASIZE CENTRALIZED CONTROL, INDUSTRIALIZATION, WORKER ACTIVISM AND COLLECTIVIZATION, ARE VAGUE TO BEGIN WITH AND HAVE BEEN APPLIED UNEVENLY. HOWEVER, THE MAIN OUTLINES OF THE MOZAMBIQUE ECONOMY AND PLANS FOR RECOVERY ARE CLEAR, AND SOME LIMITED SUCCESSES HAVE BEEN REALIZED.

4. TRADE AND BALANCE OF PAYMENTS: MOZAMBIQUE HAS DRASTICALLY LIMITED NON-ESSENTIAL IMPORTS, CRACKED DOWN ON ILLEGAL CURRENCY DEALINGS, NATIONALIZED ALL BUT ONE COMMERCIAL BANK, JEALOUSLY GUARDED FOREIGN EXCHANGE, AND PRINTED A NEW NATIONAL CURRENCY WHICH HAS NOT YET BEEN PUT INTO CIRCULATION. BUT IN SPITE OF THIS ACTION, MOZAMBIQUE FACES DISMAL PROSPECTS FOR TRADE AND FOREIGN EXCHANGE IN THE FORESEEABLE FUTURE. IMPORTS OF FOOD, SPARE PARTS, LIMITED OFFICIAL USE

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FUEL AND MACHINERY NEEDED FOR DEVELOPMENT ARE INCREASING RAPIDLY, WHILE EXPORTS HAVE DECLINED AND ARE LIKELY TO RECOVER MUCH MORE SLOWLY THAN THE GOVERNMENT ORIGINALLY HOPED. MOZAMBIQUE FACES A TRADE DEFICIT OF DOLLARS 200 MILLION OR MORE FOR EACH OF THE NEXT THREE YEARS. INTANGIBLES SUCH AS PORT AND RAIL REVENUE, PAYMENTS FOR MINE WORKERS IN SOUTH AFRICA AND FOREIGN AID WILL REDUCE THE DEFICIT TO SOME EXTENT, BUT SERIOUS BALANCE OF PAYMENTS DEFICITS ARE CERTAIN THROUGH 1980.

5. NATIONALIZATIONS: NATIONALIZATION AND STATE CONTROL OF ECONOMIC ASSETS WILL CONTINUE IN THREE AREAS. PROPERTY OF ANY TYPE DEEMED ABANDONED (ONCE THE OWNER IS AWAY FROM MOZAMBIQUE FOR MORE THAN NINETY DAYS) REVERTS TO THE STATE WITHOUT COMPENSATION. MOST SMALL AND MEDIUM-SIZED BUSINESSES ARE NOW RUN BY THEIR WORKERS OR A GOVERNMENT-APPOINTED ADMINISTRATIVE COMMITTEE IN THE ABSENCE OF THE FORMER OWNERS. IMPORT AND DISTRIBUTION OF BASIC COMMODITIES WILL CONTINUE TO BE CONSOLIDATED IN STATE HANDS. ENACOMO (FOODS), MEDIMOC (PHARMACEUTICALS), MECHANIMPEX (HEAVY EQUIPMENT) AND ENACOMOTEX (TEXTILES) ARE EXAMPLES OF STATE PURCHASING AND DISTRIBUTION ENTERPRISES. PEOPLE'S STORES AND CONSUMER COOPERATIVES HAVE PRIORITY FOR RETAILING CONSUMER GOODS, AND WILL GRADUALLY REPLACE PRIVATE RETAIL SHOPS IN MOST AREAS. THE GPRM

HAS PUT SEVENTEEN MAJOR INDUSTRIES UNDER THE DIRECT SUPERVISION OF THE COUNCIL OF MINISTERS, HAS NATIONALIZED (WITH COMPENSATION PROMISED) FOUR OF THE FIVE COMMERCIAL BANKS, THE MOATIZE COAL MINE, AND THE PETROLEUM REFINERY AND WILL NATIONALIZE OTHER LARGE FOREIGN EXCHANGE EARNERS IF GPRM BELIEVES MANAGEMENT IS NOT ACTING IN THE BEST INTERESTS OF MOZAMBIQUE.

6. AGRICULTURE AND DEVELOPMENT: AGRICULTURE IS THE FIRST DEVELOPMENT PRIORITY, BOTH TO MOVE TOWARD SELF-SUFFICIENCY AND FOR EXPORT. COMMUNAL VILLAGES, WHICH CONSOLIDATE RURAL RESIDENTS IN CENTERS THAT CAN PROVIDE EDUCATION, HEALTH CARE, ECONOMIES OF SCALE AND POLITICAL INDOCTRINATION, HAVE NOT BEEN NOTABLY SUCCESSFUL. THE RURAL POPULATION IS RELUCTANT TO MOVE FROM TRADITIONAL LANDS AND VILLAGE SELF-SUFFICIENCY HAS NOT BEEN ACHIEVED. WHILE CREATION LIMITED OFFICIAL USE

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OF NEW COMMUNAL VILLAGES WILL CONTINUE AS WILLING RESIDENTS AND RESOURCES PERMIT, THE STATE FARM SECTOR IS THE REAL BASIS FOR ATTEMPTS AT AGRICULTURAL RECOVERY. CAPITAL, MACHINERY AND FOREIGN EXPERTISE IS CONCENTRATED ON LARGE-SCALE PRODUCTION OF NECESSITIES SUCH AS BEEF, VEGETABLES, RICE AND POULTRY AS WELL AS CITRUS, COPRA, TEA, CASHEWS, COTTON AND SUGAR - WHICH ARE MAINLY FOR

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EXPORT. SIGNIFICANT PRODUCTION GAINS ARE EXPECTED FROM THE STATE FARM SECTOR DURING THE NEXT TWO OR THREE YEARS. IN VIEW OF THE SLOW DEVELOPMENT OF COMMUNAL VILLAGES, PUBLIC SERVICES ARE BEING ORGANIZED AT THE PROVINCIAL AND DISTRICT LEVEL, AND THE RURAL MOZAMBICAN HAS BETTER ACCESS TO SCHOOLS, PARAMEDICS, AND PUBLIC TRANSPORT THAN HE HAD PREVIOUSLY. HOWEVER, HIS ABILITY TO MARKET HIS PRODUCE, FIND A JOB IN THE CITY OR SPEND HIS INCOME FOR CONSUMER GOODS, WILL BE LIMITED FOR SOME TIME TO COME BECAUSE OF THE DECLINE OF THE PRIVATE SECTOR.

7. LABOR: THE FRELIMO GOVERNMENT HAS RAISED WAGES, ACCELERATED TRAINING AND JOB PLACEMENT AND PROHIBITED WORK FORCE REDUCTIONS IN ORDER TO PROTECT WORKERS FROM THE EFFECTS OF THE DEPRESSED ECONOMY. UNIONS, AS SUCH, ARE NOT OPERATING. WORKER GRIEVANCES ARE HANDLED BY STATE-DESIGNATED PRODUCTION COMMITTEES (CONSELHOS LIMITED OFFICIAL USE

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DE PRODUCCAO). HIRING, POLITICAL EDUCATION AND MANAGEMENT OVERSIGHT ARE THE RESPONSIBILITY OF GRUPOS DYNAMIZADORES (GD'S), A SUBDIVISION OF FRELIMO (THE ONLY POLITICAL PARTY IN THE COUNTRY). THESE INEXPERIENCED WORKER GROUPS, AT FIRST, HINDERED EFFICIENT INDUSTRIAL OPERATIONS WITH TIME-CONSUMING AND SOMETIMES ILLOGICAL DEMANDS. BUT COOPERATION HAS INCREASED, CONFIDENCE HAS BEEN BUILT, AND THE GV; AND FRELIMO HAVE WARNED GD'S THAT NIT-PICKING MUST NOT DELAY MEETING PRODUCTION GOALS. MANY WORKERS WHO WOULD LIKE JOBS IN THE CASH SECTOR OF THE ECONOMY HAVE BEEN REABSORBED INTO THE TRADITIONAL SECTOR AND ARE AVAILABLE AS A POTENTIAL LABOR FORCE IF NEEDED. STRIKES AND WORKER DEMANDS OUTSIDE THE PARTY STRUCTURE ARE NOT TOLERATED, AS EVIDENCED BY THE FORCEFUL SUPPRESSION OF A MAPUTO DOCKWORKERS PROTEST IN FEBRUARY. MOZAMBIQUE CONTINUES TO SUPPLY ABOUT 40,000 MINE WORKERS PER YEAR TO SOUTH AFRICA.

8. INTERNATIONAL ECONOMIC RELATIONS: MOZAMBIQUE WILL CONTINUE TO DIVERSIFY ITS ECONOMIC RELATIONS ABROAD. TO FACILITATE PURCHASE AND REPAIR, THE GPRM WANTS TO STANDARDIZE WIDELY USED IMPORTED BRANDS. AT THE SAME TIME, THE GPRM IS LOOKING FOR NEW TRADING PARTNERS TO REDUCE DEPENDENCE ON PORTUGAL AND SOUTH AFRICA. COMMUNIST BLOC COUNTRIES WILL SUPPLY AN ESTIMATED TEN PERCENT OF THE VALUE OF MOZAMBIQUE'S IMPORTS IN 1978, A CONSIDERABLE INCREASE SINCE INDEPENDENCE, BUT STILL FAR LESS THAN MOZAMBIQUE WILL BE IMPORTING FROM THE EEC OR FROM SOUTH AFRICA. JAPAN AND BRAZIL ARE AGGRESSIVELY SEEKING A FOOTHOLD IN THE MARKET. RECEPTIVITY TO AMERICAN PRODUCTS IS GOOD AND SHOULD INCREASE DUR-

ING THE NEXT FEW YEARS. IN ORDER TO ESTABLISH THEIR PRODUCTS AND EXPAND SALES IN THE MARKET, AMERICAN EXPORTERS WILL HAVE TO OFFER ATTRACTIVE CREDIT TERMS AND TOTAL PACKAGE (SALES, PARTS, SERVICE, TRAINING) AGREEMENTS. THE INVOLVEMENT OF EXIMBANK AND OPIC WILL BE CRUCIAL IF THE AMERICAN SHARE OF MOZAMBIQUE'S IMPORTS IS TO EXPAND. MOZAMBIQUE IS EXPECTED TO ASSOCIATE WITH THE LOME LIMITED OFFICIAL USE

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CONVENTION IN THE NEAR FUTURE. MEMBERSHIP IN THE IMF AND IBRD MAY FOLLOW.

9. MOZAMBIQUE'S COMMITMENT TO SOCIALISM AND CLOSE RELATIONS WITH COMMUNIST STATES WILL REMAIN FIRM. HOWEVER, THE NEED FOR CAPITAL AND TECHNOLOGY IS BRINGING MOZAMBIQUE TO SEEK PRAGMATIC COOPERATION WITH THE WEST, TO INCLUDE PRIVATE FIRMS IN DEVELOPMENT PLANS, AND TO OFFER GUARANTEES NECESSARY TO ATTRACT FOREIGN INVESTMENTS. BECAUSE OF THE CONFIDENCE BUILT BY THE CARTER ADMINISTRATION'S OVERALL POLICY TOWARD SOUTHERN AFRICA, AMERICAN FIRMS ARE SEEN AS DESIRABLE PARTNERS FOR JOINT VENTURES, TRADE, AND INVESTMENT IN MOZAMBIQUE. THE US HAS BECOME THE LARGEST SINGLE BUYER OF MOZAMBIQUE'S EXPORTS (CASHEWS, SUGAR, SISAL) AND THIS POSITION IS LIKELY TO BE MAINTAINED IN THE FUTURE.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC ESTIMATES
Control Number: n/a
Copy: SINGLE
Draft Date: 01 jun 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978MAPUTO00817
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780272-0706
Format: TEL
From: MAPUTO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t197806107/aaaadokz.tel
Line Count: 251
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 7ed7417d-c288-dd11-92da-001cc4696bcc
Office: ACTION AF
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 03 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2162403
Secure: OPEN
Status: NATIVE
Subject: MOZAMBIQUE AT THREE: THE ECONOMY
TAGS: ECON, MZ
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/7ed7417d-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014